

Message Text

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ACTION EUR-12

INFO OCT-01 EA-09 ISO-00 AID-05 CIAE-00 COME-00 EB-07

FRB-01 INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04 OPIC-06

SP-02 CIEP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15

STR-04 CEA-01 L-03 H-02 PA-02 PRS-01 NEA-10 FEA-01

/121 W

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R 241047Z DEC 75

FM AMEMBASSY BONN

TO SECSTATE WASHDC 5329

INFO AMEMBASSY BERN

AMEMBASSY BRUSSELS

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY TOKYO

USMISSION EC BRUSSELS

USMISSION OECD PARIS

AMCONSUL FRANKFURT

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DEPARTMENT PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: N/A

TAGS: EFIN, GW

SUBJECT: FINANCIAL DEVELOPMENTS (WEEK ENDING DECEMBER
23)

REF.: BONN 20144

1. LARGE CREDIT TO RUSSIA: A DM 1.2 BILLION GERMAN-
RUSSIAN CREDIT AGREEMENT, THE FOURTH IN THE SERIES,
HAS BEEN SIGNED BY A CONSORTIUM OF GERMAN BANKS, LED
BY THE DEUTSCHE BANK, AND THE RUSSIAN EXPORT BANK.

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THE CREDIT IS TO BE USED FOR THE PURCHASE OF STEEL

PIPES AND FITTINGS FROM THE GERMAN COMPANIES OF MANNES-MANN AND RHEINSTAHL. THIS AGREEMENT IS ASSOCIATED WITH THE THREE-CORNERED AGREEMENT BETWEEN RUHRGAS AG AND THE RESPONSIBLE AUTHORITIES IN IRAN AND RUSSIA SIGNED AT THE END OF NOVEMBER FOR THE DELIVERY OF NATURAL GAS TO THE FRG, FRANCE AND AUSTRIA BEGINNING IN 1981. THE CONDITIONS WERE DESCRIBED AS BEING AT "NEAR MARKET RATES".

2. CDU/CSU ON 8 PERCENT GROWTH TARGET FOR CENTRAL BANK MONEY: THE OPPOSITION COALITION CDU/CSU HAS CRITICIZED THE BUNDESBANK MONEY SUPPLY GROWTH TARGET AS TOO HIGH. WHILE SUPPORTING THE IDEA OF AN ANNOUNCED GROWTH TARGET THE OPPOSITION STATED THAT IT SEEMED CLEAR THAT THE BUNDESBANK WAS ALSO FULFILLING THE WISHES OF THE FEDERAL GOVERNMENT FOR A RELATIVELY HIGH MONETARY EXPANSION IN ORDER TO FACILITATE THE FINANCING OF THE "RECORD FEDERAL BUDGET DEFICIT IN 1976".

3. BUNDESBANK FOREIGN POSITION: IN THE SECOND WEEK OF DECEMBER (DECEMBER 8-15) THE BUNDESBANK'S NET FOREIGN POSITION DECLINED BY DM 0.1 BILLION TO DM 79.4 BILLION. HOLDINGS OF LIQUID FOREIGN EXCHANGE DECLINED BY DM 222 MILLION AND GROSS LIABILITIES BY ABOUT DM 120 MILLION.

4. BANK LIQUIDITY: IN THE SECOND WEEK OF DECEMBER BANK LIQUIDITY DECLINED BY DM 0.7 BILLION. MAJOR FACTORS REDUCING LIQUIDITY WERE A DM 2.9 BILLION INCREASE IN THE BANKS' HOLDINGS OF RESERVES AT THE BUNDESBANK AND A DM 0.8 BILLION INCREASE IN OFFICIAL NET ASSETS HELD AT THE BUNDESBANK REFLECTING FIRST PAYMENTS FOR THE MAJOR MID-DECEMBER TAX DATE. LIQUIDITY WAS INCREASED BY THE USUAL DECLINE IN CURRENCY IN CIRCULATION IN THE SECOND WEEK OF A MONTH (DM 1.8 BILLION) AND OTHER FACTORS (DM 1.2 BILLION, NET). THE BANKS FINANCED THE LIQUIDITY DECLINE BY INCREASING REDISCOUNT BORROWINGS BY DM 1.0 BILLION. AT THE SAME TIME THEY REDUCED BORROWINGS UNDER THE SPECIAL OPEN MARKET FACILITY BY DM 0.3 BILLION

5. EMMINGER ON CENTRAL BANK MONEY: IN THE PRESS CON-
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REFERENCE FOLLOWING LAST WEEK'S CENTRAL BANK COUNCIL MEETING EMMINGER EMPHASIZED THAT THE ANNOUNCED 8 PERCENT TARGET FOR THE INCREASE IN CENTRAL BANK MONEY FOR 1976 IS NOT TO BE CONFUSED WITH THE 8 PERCENT LAST YEAR. THE GOAL FOR THE COMING YEAR CENTRAL BANK MONEY IS THE AVERAGE PERCENT INCREASE FOR THE YEAR 1976 OVER THE AVERAGE FOR 1975. THE 8 PERCENT GOAL FOR 1975 ON THE OTHER HAND WAS THE TARGETED IN-

CREASE DURING THE COURSE OF 1975, I.E., DECEMBER 1975
OVER DECEMBER 1974.

6. BUNDESBANK THIRD QUARTER GNP CALCULATIONS: THE
JUST PUBLISHED BUNDESBANK THIRD QUARTER SEASONAL (NON-
WORKDAY) ADJUSTED CALCULATIONS SHOW THIRD QUARTER GNP
DECREASING SLIGHTLY (0.2 PERCENT) BELOW THE SECOND
QUARTER LEVEL IN REAL TERMS WHILE INCREASING 1.3 PER-
CENT IN NOMINAL TERMS. ACCORDING TO THE BUNDES-
BANK THE SAVINGS RATIO DROPPED FROM ITS ALL TIME HIGH
OF 17 PERCENT DURING THE SECOND TO 15 PERCENT DURING
THE THIRD QUARTER.

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7. REDUCTION IN PREDICTED 1976 DEFICIT OF PUBLIC BUDGETS: IN A PRESS CONFERENCE FOLLOWING LAST WEEK'S CENTRAL BANK COUNCIL MEETING FINANCE MINISTRY STATE SECRETARY POEHL INDICATED THAT THE 1976 DEFICIT OF ALL PUBLIC BUDGETS NOW IS EXPECTED TO AMOUNT TO ONLY SLIGHTLY ABOVE DM 60 BILLION INSTEAD OF THE PREVIOUSLY EXPECTED DM 70 BILLION BECAUSE OF CYCLICAL EFFECTS ON REVENUES AND EXPENDITURES AND ALSO BECAUSE IN THE CASE OF THE FEDERATION INTEREST EXPENSES ARE REDUCED BECAUSE PART OF THE DEBT IS BEING FINANCED AT SHORT

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RATHER THAN LONG TERM.

8. FOREIGN EXCHANGE MARKET: THE DOLLAR WEAKENED SOMEWHAT AGAINST THE DEUTSCHEMARK. DURING THE REPORTING WEEK SPOT AND FORWARD DOLLAR RATES DEVELOPED AS FOLLOWS:

FORWARD DOLLARS
(DISCOUNTS IN PCT.P.A.)
SPOT DOLLARS ONE-MONTH THREE-MONTH

DEC 18	DM 2.6235	-2.1	-2.5
19	2.6246	-1.8	-2.3
22	2.6220	-1.4	-2.2
23	2.6165	-2.1	-2.3

9. MONEY MARKET: THE GERMAN CALL-MONEY MARKET TIGHTENED SUDDENLY BEFORE THE CHRISTMAS SEASON WITH CALL MONEY REACHING THE 4 1/2 PERCENT LOMBARD RATE. THE TIGHTENING MAY REFLECT LATE PAYMENTS FOR THE BIG-MID-DECEMBER TAX DATE, AN INCREASE IN CURRENCY IN CIRCULATION DUE TO CHRISTMAS AND WINDOW-DRESSING PREPARATIONS OF THE BANKS FOR THE YEAR-END. MOREOVER THE LONG CHRISTMAS WEEKEND (FOUR DAYS) MAY HAVE AGGRAVATED THE BANKS' LIQUIDITY DISPOSITIONS FOR THE REMAINDER OF DECEMBER. DURING THE REPORTING WEEK FRANKFURT INTER-BANK MONEY MARKET RATES DEVELOPED AS FOLLOWS:

CALL MONEY ONE-MONTH MONEY THREE-MONTH MONEY

DEC 18	3.4-3.5	4.0-4.3	4.0-4.2
19	3.9-4.2	4.0-4.3	4.0-4.2
22	4.4-4.7	4.0-4.3	4.0-4.2

23 4.5-4.7 4.2-4.5 4.0-4.3
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Margaret P. Grafeld
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